

Sustainability Analysis of the Company Financial Reports

Naseem Yousif Hanna Al-Lallo^{1,*} and Saad Salih Hussein²

¹Department of Accounting, Salahuddin University, Kurdistan Region, Iraq

²Department of Accounting, Tikrit University, Tikrit, Iraq

Received: 21 Feb. 2022, Revised: 22 Mar. 2022, Accepted: 3 Apr. 2022.

Published online: 1 Jul. 2022.

Abstract: In this paper, we analyze financial reports to measure the degree of harmonization between the disclosure in financial statements and sustainability reports. Content analysis has been employed to measure the harmonization degree to reveal the extent of complying with the sustainability reports. The sample contains thirteen Iraqi companies listed in the Iraqi stock exchange. It is shown that a low level of harmonization between financial statements disclosure and the sustainability reports. Nevertheless, the study found real interest by the Iraqi companies to adopt a standard of sustainable reports.

Keywords: financial reports, sustainability reports, content analysis, Iraqi companies.

1 Introduction

Sustainable development (SD) is vibrant for companies to enhance its' financial performance, emphasizing and developing SD terminology is an emerging interest by scholars of business and economic, where Adam Smith, was one of the incipience founders of this term in the 18th century, but clear view has developed during the 20th century by many theorists in business and economics. For instance, Klarin [1] claimed that Adam Smith pointed out the issues of development, further, in the 19th century the classical economists such as Malthus, Ricardo, and Mill with Carl Marks also maintained about certain elements of SD [1]. Bruntland Report [2] showed that sustainable development is a type of development that can meet the needs of the present without compromising the ability of future generations to meet their own needs. It's unblemished that two fundamental elements of the SD concept were gone before the creation of the concepts itself. Based on Sharplay [3] development and sustainability may well be within the juxtaposition, where both seem to have conceivable counterproductive impacts. Sachs [4] confirmed the high linking between the two elements by suggesting how there is no development without sustainability or vice-versa sustainability without development. In the present dynamic era, businesses try to adopt unified accounting standards to attract investors both locally and internationally. Sustainability reporting creates a level of communication and mutual understanding between firms on one side and users of financial accounting. Financial accounting users are demanding more

information that can be influential to have clear planning & control, and accountability to their social and environmental impact [5]. Therefore, firms that comply with sustainability reporting standards have a greater chance to increase their financial activities and then survive in the highly competitive business environment. It was argued that adopting sustainability reporting systems gives the ability to set standards, develop models and generate information reportedly, and bring the organization into line with the principles of sustainable development [6]. It is therefore, this paper is trying to identify the level of adaptation by the Iraqi corporate firms to standard sustainability reports, measuring this level can be an indicator of success to the companies working in different sectors in Iraq.

Measuring the level of sustainability required detailed information from the sustainability reports – if any-published by the companies regularly, this requirement put more pressure on the management to comply with the regulation and governance [7].

Companies start following the sustainability reporting due to the obligation towards society, the environment, and their development. Generally, in 2015 UN has adopted 2030 sustainable development goals; subsequently, countries should have their definition to reach the goals with their indicators [8]. In the case of Iraq, there was a tangible step towards adopting sustainability reporting implementation, for instance, an official addressing from the Iraqi officials to the president of the economic and

*Corresponding author-mail: naseem.allallo@su.edu.krd

social council showed high interest from the Iraqi government to implement the 2030 agenda (Permanent Mission of the Republic of Iraq in UN, 2018) [9]. Therefore, accountants, academicians, and companies in Iraq are still in the initial stage to take the responsibility of adopting sustainable development and to understand the benefits of this upgrading the financial reporting system in Iraqi companies. The efforts in this research addressed to stockholders, companies' management, investors, and government to set their map road to be ready for 2030, and to understand the current situation for SD reports.

In this regards, this present paper seeking a critical evaluation to what extend the Iraqi industrial companies listed in the Iraqi stock exchange are ready to adopt the sustainable development standards and its reporting mechanism. To examine the case of Iraqi industrial companies, the study has employed content analysis to the present financial reporting system and provides a guide to the companies, accounting educators to understand and adopt the financial sustainability reporting. In this regard, this study considered one of the few studies, to the best of researchers' knowledge, which examined the readiness of Iraqi industrial companies to adopt sustainability reporting using the content analysis method.

To test the study hypothesis, the researchers have structured the paper to include materials and methods in section 2, section 3 includes results and discussion, and finally references were shown in section 4.

2 Materials and Methods

United Nations Conference on Trade and Development has sparked a huge interest among the accounting community i.e. academicians, accountants, CPAs, and corporate management to move forward and adopt a sustainability development reporting system. For example, [10] discussed the importance of adopting SD reporting systems in companies and how companies and society will be benefited from such steps, where sustainability can be applied in every aspect of our social, economic, and environmental life. Sustainability goes beyond financial activities to be considered as a concept of living today, respecting the past, and preserving the future. it is a common sense in the that accounting research that there is higher importance to practices developed by professional accountants with a view to the sustainable development of companies.

Accounting and business scholars tried to organize the conceptual understanding, and contribute to the literature by identifying the dimensions of sustainable development through different eras; where the first era (pre-Brundtland period) was between (1800-1979) where the first argument of sustainable development was introduced, for instance, theorists such as Smith, Marx, Malthus, Ricardo, and Mill recognized the boundaries of development and environmental requirements, also, Roman Club had contributed to warned on the negative consequences of economic development, moreover, the first United Nations

Conference on the Human Environment has marked the introduction of the concept of sustainable development.

The Brundtland reporting was the second era between the years from 1980 to 1990, where United Nations Environment Program was initiated, and increasingly used of terms development and environment, development without destruction and development following the environment and first time the term eco-development was described. Additionally, United Nations World Commission on Environment and Development program was announced, the program aimed to raise awareness and concern about the negative impact of socio-economic development on the environment and natural resources. Then, Brundtland Commission could introduce Sustainable Development in its true sense for the present understanding and use. The Third era from 1990 until now (post Brundtland period), this era has witnessed more focus on sustainable development through many events. For instance, Rio Declaration on Environment and Development, Agenda 21, Non-legally binding authoritative statement of principles for a global consensus on the management, conservation, and sustainable development of all types of forests, Climate Change Convention, and Convention on Biological Diversity.

Generally, Global Reporting Initiative (GRI) has two sets of standards; universal standards, and topic-specific standards. Universal standards include foundation which is considered the starting point for using the GRI Standards. The General Disclosure approach focuses on reporting organizational contextual information. Finally, the management approach, to report the management approach for each material topic [11]

It has been argued that one of the important accounting cycle steps is financial disclosure [12]. The information provided in the companies' financial disclosure can be used to facilitate decision-making made by owners, investors, and managers; moreover, it provides a mechanism for shareholders and other investors to supervise managerial performance [13]. To enhance economic growth, companies should encourage investment in their assets though providing satisfactory information in its financial and sustainability reports [14].

The authors believe that any organization interested to apply the GRI; management should have evidence for applying the first group of GRI Standards, eventually, and the company will be ready to apply the second group of standards which is called topic-specific standards that focus on economic, environmental, and social standards.

The Iraqi government has taken serious initiatives towards adopting SD and GRI through forming the law of Protecting and Improving Iraqi Environment No. 27 in 2009. The law discussed imposing to protect the environment, and improving Standards Sustainable Development Reports:

Based on the above argument, the researchers can hypothesize that;

H₀₁: The relationship between sustainable development reporting and financial performance is positive.

3 Results and Discussion

The present study considered a sample of Iraqi companies listed in the Iraqi stock exchange, 13 companies were taking on our consideration for data collection and hypotheses testing. Companies were chosen based on data availability, contribution to Iraqi GDP 2.05%¹², and production consistency. Moreover, oil-producing countries have faced real crises during the time of the decrease of crude oil prices; therefore, we are trying to shed a light on the supportive sectors in Iraq other than the oil sector. Data were collected from the sample companies for the year 2018-2019 because they are published and accessible, newer data is usually available after September of the next year. Content analysis is considered to measure the extent of harmonization between financial reports published by Iraqi companies compared with Global Reporting Initiative (GRI) reports for sustainability. Dummy variables were considered to see the implication and harmonization between the financial statement of Iraqi companies and GRI standards, where 1 depicts similarity and 0 represents no similarity between the sub-categories of GRI standards. Generally, there are 37 standards published by GRI lies within four categories; the first category (the basic) has three standards, where the second category (Economic) has 7 standards, the third category (environment and materiality) includes 7 standards, and lastly, Social category has 19 standards. In this work, we are comparing the first category standards with the Iraqi financial statement of our sample study to measure the extent of implication and readiness of Iraqi companies to adapt the sustainability reports standards suggested by GRI.

3.1 101 Reporting Principles for Defining Report Content

Table 1 shows the extent of harmonization between the financial statements of the sampled companies with the GRI sustainability standards based on the first standard of the first category. This standard (101) discusses Reporting Principles for defining report content from different angles, such as Stakeholder Inclusiveness, Materiality, Sustainability Context, Completeness, Accuracy, Balance, Clarity, Comparability, Reliability, and Timeliness. Considering the thorough comparison between financial statements of the study sample and GRI standards, the results show the financial statements had minimal harmonization between 101 and GRI sustainability

² [https://globaledege.msu.edu/countries/iraq/memo\(2016\)](https://globaledege.msu.edu/countries/iraq/memo(2016)), (the second largest contributed sector to Iraqi GDP after the oil sector)

standards in 0.575 for each company of this study sample. Perhaps the unified regulation produced by the Iraqi officials to organize the accounting and disclosure has a huge effect on firms' financial statements. The results give a hint that the companies should have a proper blueprint to follow the requirements of 101 GRI standards.

Table 1: Reporting Principles for defining report content.

| | Company name | The extent of implication |
|----|--|---------------------------|
| 1 | Ready-made clothes Company | 0.575 |
| 2 | Modern sewing Company | 0.575 |
| 3 | Electronics Company | 0.575 |
| 4 | Modern chemical company | 0.575 |
| 5 | Dates Company | 0.575 |
| 6 | Carpet and furniture Company | 0.575 |
| 7 | Kindy for veterinary vaccines Company | 0.575 |
| 8 | Bicycles Company | 0.575 |
| 9 | Mansoor for drug manufacturing Company | 0.575 |
| 10 | Watanya for chemical industry Company | 0.575 |
| 11 | Baghdad for wrapping material Company | 0.575 |
| 12 | Baghdad for Soda Company | 0.575 |
| 13 | Al-khazir road for construction material production | 0.575 |
| | Comparison between financial statements of Iraqi companies and GRI standards | |

3.2: 102 General Disclosure

The second standard in the basic category of GRI sustainability standards is general disclosure. Table 2 presents the results of content analysis based on Organization Profile (13 cores), Strategy (2 cores), Ethics & Integrity (2 cores), Governance (22 cores), Stakeholder Engagement (5 cores), and Reporting Practices (12 cores). A look into table 2 shows that Electronics Company, Bicycles Company, and Baghdad for wrapping material Company shares the first rank of harmonization level between the financial statements and GRI sustainability standards, followed by Dates Company, and Watanya for chemical industry Company, both of the companies have 16% level of harmonization. Mansoor for drug manufacturing Company was at 18% level followed by Modern sewing Company, Carpet and Furniture Company, Kindy for veterinary vaccines Company at 16% level of harmonization. The modern chemical company was on 14% level then followed by Baghdad for Soda Company, and Al-khazir road for construction material production where they are only at 4% level of harmonization, finally Ready-

made clothes Company has zero harmonization between its financial statements and GRI sustainability standards.

Table 2: General Disclosures.

| | Company name | The extent of implication |
|----|---|---------------------------|
| 1 | Ready-made clothes Company | 35% |
| 2 | Modern sewing Company | 16% |
| 3 | Electronics Company | 23% |
| 4 | Modern chemical company | 14% |
| 5 | Dates Company | 21% |
| 6 | Carpet and furniture Company | 16% |
| 7 | Kindy for veterinary vaccines Company | 16% |
| 8 | Bicycles Company | 23% |
| 9 | Mansoor for drug manufacturing Company | 18% |
| 10 | Watanya for chemical industry Company | 21% |
| 11 | Baghdad for wrapping material Company | 23% |
| 12 | Baghdad for Soda Company | 4% |
| 13 | Al-khazir road for construction material production | 4% |

3.3 103 Management Approach

103 GRI sustainability standard is measuring management approach through Explanation of the material topic and its Boundary (3 cores), the management approach and its components (9 cores), Evaluation of the management approach (3 cores). Table 3 displays the results of content analysis between the sample of Iraqi companies considered in this study and 103 GRI sustainability standards. A cursory look into table 3 illustrates that none of the sample

companies considered in this study were able to follow the requirements of GRI standards as all of the results of contents analysis for the sample companies of this study were found at a 0% level of similarity.

The reason could be because of the rigid and classic approaches of preparing financial statements followed by Iraqi companies, or even the regulations imposed by the regulatory officials to the companies working in Iraqi markets.

3.4 The Effect of 101, 102, and 103 on Firm Performance

To measure the effectiveness of the basic sustainability standards on ROA for the selected 13 companies working in Iraq and listed in the Iraqi stock exchange, the researcher had to calculate the ROA of each company for the year 2019 and the level of harmonization of each basic standard as displayed in table 4.

Table 3: management approach.

| | Company name | The extent of implication |
|----|---|---------------------------|
| 1 | Ready-made clothes Company | 0% |
| 2 | Modern sewing Company | 0% |
| 3 | Electronics Company | 0% |
| 4 | Modern chemical company | 0% |
| 5 | Dates Company | 0% |
| 6 | Carpet and furniture Company | 0% |
| 7 | Kindy for veterinary vaccines Company | 0% |
| 8 | Bicycles Company | 0% |
| 9 | Mansoor for drug manufacturing Company | 0% |
| 10 | Watanya for chemical industry Company | 0% |
| 11 | Baghdad for wrapping material Company | 0% |
| 12 | Baghdad for Soda Company | 0% |
| 13 | Al-khazir road for construction material production | 0% |

Table 4: ROA and the basic sustainability standards

| | Company name | ROA | 101 | 102 | 103 |
|----|---|----------|------|------|------|
| 1 | Ready-made clothes Company | 0.173346 | 0.58 | 0.16 | 0.00 |
| 2 | Modern sewing Company | 0.73933 | 0.58 | 0.23 | 0.00 |
| 3 | Electronics Company | 0.00 | 0.58 | | 0.00 |
| 4 | Modern chemical company | -49.1342 | 0.58 | 0.14 | 0.00 |
| 5 | Dates Company | 81.02631 | 0.58 | 0.21 | 0.00 |
| 6 | Carpet and furniture Company | 0.000639 | 0.58 | 0.16 | 0.00 |
| 7 | Kindy for veterinary vaccines Company | 2.510944 | 0.58 | 0.16 | 0.00 |
| 8 | Bicycles Company | -0.18557 | 0.58 | 0.23 | 0.00 |
| 9 | Mansoor for drug manufacturing Company | -1.01237 | 0.58 | 0.18 | 0.00 |
| 10 | Watanya for chemical industry Company | 5.074337 | 0.58 | 0.21 | 0.00 |
| 11 | Baghdad for wrapping material Company | 32.97146 | 0.58 | 0.23 | 0.00 |
| 12 | Baghdad for Soda Company | 3.069756 | 0.58 | 0.04 | 0.00 |
| 13 | Al-khazir road for construction material production | 65.82147 | 0.58 | 0.04 | 0.00 |

Source: data were collected from the financial reports of the sample firms.

The correlation matrix for the study variables; ROA, 101, 102, and 103 sustainability standards are represented in table 5. A look into the table shows that there was a significant relationship between 101, and 102 with ROA at a 1% level. However, 103 standards have no relationship with ROA, the reason may be because there was zero harmonization between 103 standards and GRI sustainability standards.

Table 5: Correlations matrix.

| | ROA | 101 | 102 | 103 |
|-----|---------|---------|-------|-------|
| ROA | 1.000 | | | |
| 101 | 0.12*** | 1.000 | | |
| 102 | 0.13*** | 0.12*** | 1.000 | |
| 103 | 0.00 | 0.00 | 0.00 | 1.000 |

3.5 Measuring the Impact of Basic Sustainability Standards on ROA

Table 6 shows the results of the impact of basic sustainability standards (101, 102, and 103) on ROA. A look into the table shows that the Beta value for 101 standards was 0.3 significant at 1% level, also 102 has 0.38 impact of ROA with 1% level of significance, however, 103 has no significant impact on ROA. R square value depicts that the study variables have explanatory power of 0.325 and the rest is due to other variables that were not included in this study. F value was 0.35 with a 10% level of significance which indicates the model used was proper and can explain the phenomena. VIF value was found to be 1 and less, which indicates there is no problem of collinearity in this model.

Table 6: the impact of basic sustainability standards on ROA.

| Model | Standardized Coefficients | t | Sig. | F | Sig. | R ² | Collinearity Statistics | |
|-------|---------------------------|-------|-------|------|-------|----------------|-------------------------|------|
| | | | | | | | Beta | VIF |
| 1 | (Constant) | .584 | .572 | 0.35 | 0.095 | 0.325 | | |
| | 101 | 0.3 | 10.33 | | | | 0.00 | 0.30 |
| | 102 | 0.38 | 9.73 | | | | 0.00 | 0.97 |
| | 103 | -.059 | -.187 | | | | .855 | 1.00 |

ROA is the dependent variable

3.6 Conclusion

The present work is a humble contribution to the accounting literature to measure the level of implication between Iraqi companies' financial statements and GRI sustainability standards. The study has employed content analysis methodology on 13 companies working in Iraq. The researchers tried to measure the harmonization and implication of GRI sustainability standards on financial statements produced by Iraqi companies. The first three standards 101, 102, and 103 standards were considered as a comparison guideline because they are considered as the basic group of sustainability standards. The researchers argued that companies should have a minimal implication of basic standards to move forward in adapting the rest of GRI sustainability standards.

The results of this study were produced based on each standard of the basic GRI sustainability standards category. The results, in general, show that the companies need to work in stable steps toward adapting GRI sustainability

standards. Except for 103 basic standards, all of the companies failed to follow the requirements of GRI sustainability standards. Nevertheless, companies had encouraging indicators of following the requirements of adapting 102 basic GRI sustainability standards. The study has found that there is a significant impact of 101, and 102 standards on ROA, however, 103 standards failed to have an impact on ROA.

It is noticeable that Iraqi companies are controlled by the government which we found that the rules are outdated and did not meet the requirements of the SD report. Thus, it is recommended that the Iraqi government need major changes in the rules and regulations to be consistent with the SD requirements.

The researchers suggest that further research consider different or bigger samples of Iraqi companies to generalize the present results. If the results of other studies came in the same line as this study's results, then the researcher would recommend the companies working in Iraq must consider a change in the structure and the presentation of their financial statements considering GRI sustainability standards as a guideline to be followed. The researchers, also expect the sample size needs to be expanded in other studies to make sure there is no bias of sample size.

Conflicts of Interest

The authors declare that they have no conflicts of interest to report regarding the present study.

References

- [1] Klarin, T. The Concept of Sustainable Development: From its Beginning to the Contemporary Issues. *Zagreb International Review of Economics & Business.*, **21(1)**, 67-94, (2018).
- [2] Brundtland, G. *Report of the World Commission on Environment and Development: Our Common Future*. United Nations General Assembly document., **A/42/427**, (1987)
- [3] Sharpley, R. Tourism and sustainable development: Exploring the theoretical divide., *Journal of Sustainable Tourism.*, **8**, 1-19 (2000) <http://dx.doi.org/10.1080/09669580008667346>
- [4] Sachs, W. Environment. *In The Development Dictionary: A guide to knowledge as power* (2nd) (pp. 24-37). New York: Zed Books London & New York., (2010)
- [5] Unerman, J., Guthrie, J., & Striukova, L. *UK Reporting of Intellectual Capital.*, (2007)
- [6] Geanina, S. S., Adriana, P., & Maria, C. A The Role of the Accounting Profession In Achieving The Objectives Of Sustainable Development. *Annals - Economy Series.*, **3**, 117-122 (2018).
- [7] Dumay, J., Guthrie, J., & Farneti, F. GRI Sustainability Reporting Guidelines For Public And Third Sector Organizations. *Public Management Review.*, **12(4)**, 531-548, (2010).
- [8]. Foundation, *U. N. Sustainable Development Goals*, (2016).
- [9] Official letter, *Permanent Mission of the Republic of Iraq to the United Nations, 2030 Agenda*: Retrieved from <https://sustainabledevelopment.un.org/content/documents/20742Iraq.pdf>, (2018),
- [10] Knezevic, G., Grzanic, J., & Vukadinovic, P. *The Role Of The Accounting In The Sustainable Development: The Case Of Serbia*. Paper presented at the Finiz: Singidunum University International Scientific Conference, Belgrade, Serbia., (2014).
- [11] *Global Reporting Initiative Foundation*. Retrieved from <https://www.globalreporting.org>, (2016).
- [12] Jensen, M. C., & Meckling, W. H. Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics.*, **3(4)**, 305-360, (1976).
- [13] Hill, C. W. L., & Jones, T. M. Stakeholder-Agency Theory. *Journal of Management Studies.*, **29(2)**, 131-154, (1992).
- [14] Vázquez, S., & Sumner, A. Revisiting the Meaning of Development: A Multidimensional Taxonomy of Developing Countries. *Journal of Development Studies.*, **49(12)**, 1728-1745, (2013).